GOVERNMENT HANDOUT

COMPETITIVE DISCUSSION CASE

Information provided to both government and contractor personnel.

The US Army at Ft. Sheridan, Illinois issued a RFP requesting offers for a **one year firm fixed price contract** for services pertaining to operation and management of a nuclear facility, including planning and conduct of assigned research projects.

The RFP required offerors to provide fully loaded labor rates for the different labor categories identified in the solicitation as: program manager, nuclear physicist, senior reactor operator, reactor technician, junior reactor operator and nuclear engineer. The RFP required the contractor supply the necessary personnel to operate and maintain the reactor, as well as to plan and manage the research projects.

The RFP provided that offers would be based on level of effort estimated to total no less than 70,000 person hours for the contract period of one year. The RFP established several technical and business management evaluation factors including past performance, operation plan, and performance risk. The RFP also established that technical factors are more important than price. The RFP also provided that contract award would be made to the offeror whose proposal was most advantageous to the government after price and the other factors were considered.

Government Confidential Information (provided only to government representatives).

The nuclear facility at Ft Sheridan is built around a small research reactor. Operation of the facility has never been contracted out and is currently accomplished by a mix of military and civil service employees. However, the experience of five other DoD laboratories have convincingly demonstrated the cost savings associated with contracting out such facilities.

The operation and management tasks contracted out at the other laboratories are virtually identical to what has been solicited. Consequently, the government side has been able to use the actual costs from the contracts at these laboratories (along with costs incurred by the Government to operate the Ft. Sheridan facility) to determine the cost realism of the two proposals.

Two firms responded to the RFP and submitted proposals — Coburn International and Callaway Corporation. Although both companies have extensive experience in managing nuclear facilities, neither has ever done business with the government.

The two contractors in the competitive range (Coburn and Callaway) both submitted proposals that were not deficient in any technical aspect but varied significantly in price. The Coburn proposal was slightly better on technical aspects and received a technical score of 68 out of a possible 70 points. Although the Callaway proposal was not otherwise technically deficient, the technical evaluators gave it a score of only 47 points because of concerns about the performance risks implicit in the apparent underestimates of labor costs. Had the costs been realistic, the Callaway technical score would have been 67 points.

Since there were no technical deficiencies in the Coburn or Callaway proposals other than those related to Callaway's pricing, the government plans to hold discussions on cost issues to obtain BAFOs before making a final source selection decision.

Coburn International Proposal

Coburn proposed price of $5.6 million was almost 50 percent higher than the average price of $4 million paid by the 5 other laboratories that had contracted out for identical services. (Note: The other laboratories had contracts ranging in price from $3.5 to 4.7 million.) Government price analysts attributed the higher Coburn costs largely to higher hourly wage rates and significantly higher burden rates. The burden rate of 200 percent, which included overhead and G&A, was almost twice as much as the average rate for the other contracts.

Coburn Proposal

labor category	work years	estimated hours	hourly rate	burdened rate	total cost(000's)
program manager	4	7,840	$30	$90	$706
nuclear physicist	5	9,800	25	75	735
senior reactor operator	5	9,800	23	69	676
reactor technician	8	15,680	20	60	941
junior reactor operator	10	19,600	18	54	1,058
nuclear engineer	4	7,840	24	72	564
		70,560			4,680
					=======
Profit		20%			936
Proposed Price					$5,616

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Callaway Proposal

In contrast to the Coburn offer, the Callaway proposal of $2.0 million appears unrealistically low when compared to the Army's average cost of $4 million for the other contracts. Specifically, the cost analysis determined that the rates of compensation seem unrealistic when compared with the wage rates paid for similar work. The Government evaluators were concerned that the low rates would cause Callaway difficulty in retaining employees and thereby pose a risk to satisfactory contract performance. Moreover, the cost analysis also determined that the fully burdened rates appear unrealistically low. These unreasonably low burden rates risk the possibility of unanticipated overhead costs and increased the risk to contract performance.

Callaway Proposal

labor category	work years	estimated hours	hourly rate	burdened rate	total cost(000's)
program manager	4	8,000	$20	$30	$ 240
nuclear physicist	5	10,000	18	27	270
senior reactor operator	5	10,000	16	24	240
reactor technician	8	16,000	16	24	384
junior reactor operator	10	20,000	12	18	360
nuclear engineer	4	8,000	22	33	264
TOTALS	36	72,000			1,758
Profit				@15%	264
Proposed Price					$ 2,022

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ASSIGNMENT:

Conduct competitive discussions with Coburn International and Callaway Corporation. Obtain and score the BAFOs. Then, after reviewing all available data, recommend one of the proposals and write a justification for the award decision.

	Coburn	Callaway
BAFO amount (in millions)	$___	$___
Technical evaluation (70 points maximum): 68	__*	
Price evaluation** (30 points maximum):	___	___
TOTAL POINTS (100 points maximum):	=====	=====

* Callaway gets 67 points when the proposal price is increased to $3.5 million or higher. Otherwise the Callaway technical score is 47 points

To score price, assign 30 points to the low offer. Starting with the maximum of 30 points, **subtract one point from the high offer for every $100,000 that it exceeds the low offer (to a minimum of zero points for price). For example, assume two BAFOs for $3 million and $3.5 million, respectively. Enter a score of 30 points for the first BAFO. Enter a score of 25 points for the second BAFO, since it exceeds the first BAFO by $500,000 ($500,000 , $100,000 = 5; 30 - 5 = 25).

Source Selection Recommendation _____
Narrative Justification:

CONTRACTOR 1 (COBURN INTERNATIONAL)CONFIDENTIAL

COMPETITIVE DISCUSSION CASE

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The RFP provided that offers would be based on level of effort estimated to total no less than 70,000 person hours for the contract period of one year. The RFP established several technical and business management evaluation factors including past performance, operation plan, and performance risk. The RFP also established that the technical factors are more important than price. The RFP also provided that contract award would be made to the offeror whose proposal was most advantageous to the government after price and the other factors were considered.

CONTRACTOR 1 (COBURN) CONFIDENTIAL

Information provided only to representatives of Coburn International Corp.

Your firm, Coburn International, submitted a proposal in response to the Army RFP for operating and managing the nuclear facility at Ft Sheridan, Illinois. Your proposal made the competitive range and now you are preparing for competitive discussions with the government. Although you have not done business with the government before, you realize that the purpose of competitive discussions is for the government to provide you with the deficiencies in your proposal so you can (if desired) change the proposal and submit a better offer known as the BAFO or best and final offer.

You don't know how many firms responded to the Army RFP, but you would like to find out as much as possible about competing offerors and proposals. Your company's proposal is indicated below.

Coburn Proposal

labor category	person years	estimated hours	hourly rate	burdened rate	total cost(000's)
program manager	4	7,840	$30	$90	$706
nuclear physicist	5	9,800	25	75	735
senior reactor operator	5	9,800	23	69	676
reactor technician	8	15,680	20	60	941
junior reactor operator	10	19,600	18	54	1,058
nuclear engineer	4	7,840	24	72	564
		70,560			4,680
					=======
Profit				@20%	936
Proposed Price					$5,616
					=====

PRICE DISCUSSION

The Coburn proposal is priced high, perhaps by at least 25 percent than what your pricing department estimates what the likely "target" costs will actually be. But Coburn has such a good reputation that the firm is considered the "Cadillac" of the industry. You know the government is a "picky" customer and feel that if the government wants the best possible service, the Army should be prepared to pay the higher price.

The proposal price is really the high end of what a fair and reasonable price would be because in a "worst case" scenario total costs could conceivably escalate to $4.7 million. But you weren't sure there would be other acceptable proposals in the competitive range and you wanted to limit the risk for the firm in accepting the 1 year contract just in case the "worst case" scenario develops and costs are $4.7 million.

However, in case you have to lower your price to be competitive, there are a number of ways to do it. The government might agree to fewer work years or you may be able to change the labor category mix by, for example, increasing the number of junior reactor operators and reducing the number of senior operators. The estimated hours per employee could even be reduced if you assume that a work year is less than 1960 hours (2 weeks vacation and 5 paid holidays).

The hourly rates are based on the current hourly average for each labor category within your firm. However, your firm has many long time employees who with longevity raises get paid almost 20 percent higher than the industry average. Since this government contract represents an almost 50 percent increase from your current business, many new employees will have to be hired to do the work who would earn less than the average of your current workforce. Consequently, the average hourly rates would decrease if a large portion of the newly hired employees were assigned to the Army contract.

The 200 percent burden rate was based upon larger indirect cost pools and a smaller business base for next year when the contract is in force. The indirect pools are anticipated to go up because of cost of new corporate headquarters complex in a prestigious location. Moreover, the pricing department estimated a smaller business base because of the very remote possibility of losing several significant accounts. If these accounts are maintained and/or new business replaces the lost accounts (not counting the Army contract), the burden rate can be reduced to 100 percent (from 200 percent).

ASSIGNMENT:
The contracting out of reactor facilities in the government is just beginning and promises to be a huge market segment. Coburn's board of directors has directed you to secure this contact to make a foot hold for the firm in this highly sought after business. **You have been directed to do whatever it takes to negotiate a profitable government contract for Coburn International. Your job depends on the success in obtaining this contract and on the size of the likely profits from performing the work.**

Coburn Corporation BAFO $ _____

CONTRACTOR 2 (CALLAWAY CORPORATION) HANDOUT

COMPETITIVE DISCUSSION CASE

Information provided to both government and contractor personnel.

The US Army at Ft. Sheridan, Illinois issued a RFP requesting offers for a one year **firm fixed price contract** for services pertaining to round the clock operation and management of a nuclear facility, including planning and conduct of assigned research projects.

The RFP required offerors to provide fully loaded labor rates for the different labor categories identified in the solicitation as: program manager, nuclear physicist, senior reactor operator, reactor technician, junior reactor operator and nuclear engineer. The RFP required the contractor supply the necessary personnel to operate and maintain the reactor, as well as to plan and manage the research projects.

The RFP provided that offers would be based on level of effort estimated to total no less than 70,000 person hours for the contract period of one year. The RFP established several technical and business management evaluation factors including past performance, operation plan, and performance risk. The RFP also established that technical factors are more important than price. The RFP also provided that contract award would be made to the offeror whose proposal was most advantageous to the government after price and the other factors were considered.

CONTRACTOR 2 (CALLAWAY) CONFIDENTIAL

Information only provided to representatives of Callaway.

Your firm submitted a proposal in response to the Army RFP for operating and managing the nuclear facility at Ft Sheridan, Illinois. Your proposal made the competitive range and now you are preparing for competitive discussions with the government. Although you have not done business with the government before, you realize that the purpose of competitive discussions is for the government to provide you with the deficiencies in your proposal so you can (if desired) change the proposal and submit a better offer known as the BAFO or best and final offer.

You don't know how many firms responded to the Army RFP, but you would like to find out as much as possible about competing offerors or proposals. The Callaway proposal is shown below.

labor category	person years	estimated hours	hourly rate	burdened rate	total cost(000's)
program manager	4	8,000	$20	$30	$ 240
nuclear physicist	5	10,000	18	27	270
senior reactor operator	5	10,000	16	24	240
reactor technician	8	16,000	16	24	384
junior reactor operator	10	20,000	12	18	360
nuclear engineer	4	8,000	22	33	264
TOTALS	36	72,000			1,758
Profit				@15%	264
Proposed Price					$2,022

PRICE DISCUSSION

The Callaway proposal was deliberately priced low to give the firm a competitive edge in obtaining the business. In fact, the proposed price may cost the firm an additional $1.5 million on the contract. Nevertheless, the firm wants a foothold in an extremely important military market segment and is willing to take big risks in the process.

Callaway realized that Coburn International, the high priced Cadillac of the industry, would be bidding on this work and wanted to be certain Callaway won contract award. Coburn would more than likely submit the proposal with the most technical merit because of their expertise and experience in this field. Consequently, Callaway needed a big edge on price to have a chance for the contract. Moreover, Callaway believes that future contracts at Ft Sheridan will follow if the company can win the initial contract.

The Callaway proposal is unrealistically low largely because the hourly rates reflect entry salaries. The hourly rates used in the proposal are the low end of the entry level wage rates for the industry. In all probability Callaway will have a difficult time recruiting skilled personnel at those low rates. In addition, Callaway will have a difficult time retaining personnel when the same job market pays substantially higher wages elsewhere. Finally, Callaway will not be able to staff the entire government contract with new personnel earning entry level salaries. Callaway

will have to staff the contract with some experienced personnel. In short, the actual labor costs may be as much as 50 percent more than what Callaway indicated on the proposal.

The burden rates, which include overhead and G&A, are also probably understated. Callaway was overly optimistic in developing the sales forecasts used to calculate the company's indirect cost base. Consequently, the actual burden rates will be much greater if the sales fail to materialize. Increasing the 50 percent burden rate to the industry average of approximately 100 percent would almost double the indirect charges to the government contract, however, this revised rate would be much more realistic and would more likely relate to actual costs.

Given these facts, the chief negotiator for Callaway asked the project manager whether the proposed price might put Callaway at too much risk if awarded the contract. The manager replied informally that this is not the negotiation team's worry; Callaway will do whatever it takes following award to minimize costs and obtain additional reimbursements from the Government. The project manager also informed the chief negotiator that the Board of Directors fully concurs with the submitted price and is counting on the negotiation team to convince the Government that the proposed price is realistic.

Assignment:

The contracting out of nuclear facilities in the government is just beginning and has the potential to become an important part of Callaway Computer's future business. **The Callaway board of directors has ordered you to do what ever it takes to secure this important government contract even if it means losing money for the company.** However, since your year end bonus depends on the profitability of your contracts, you would like to negotiate a government contract that makes money for Callaway. Moreover, if you can turn this initial contract into a money winner your long term success in the company would be ensured. But in any case, you have been ordered to get this business.

Callaway Corporation BAFO $_____